

Box 1.2

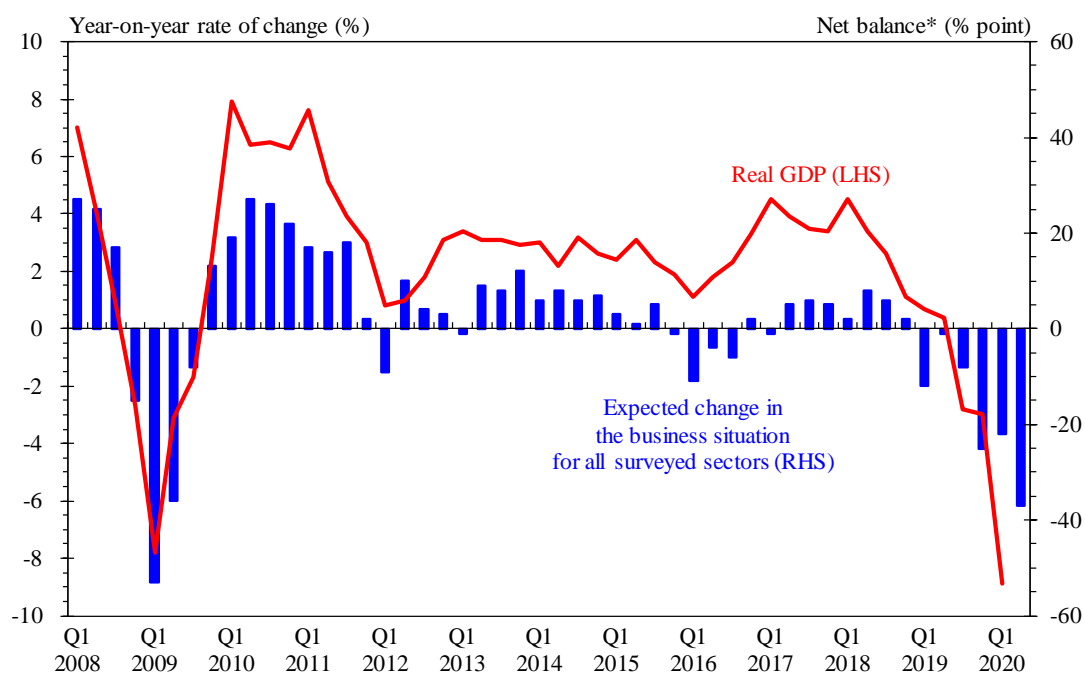
Business sentiment in Hong Kong

This box article gives a general overview of the prevailing business sentiment in Hong Kong, based on results from various surveys that are available in the public domain. Latest results of various surveys all pointed to a sharp deterioration in business sentiment in recent months.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during early March to mid-April, business sentiment among large enterprises in Hong Kong turned even more subdued (*Chart 1*). The proportion of large enterprises expecting business situation to worsen in the second quarter of 2020 over the first quarter exceeded the proportion of those expecting improvement by 37 percentage points (i.e. a net balance of -37), representing a sharp deterioration from the net balance of -22 in the previous round and also the worst reading since the first quarter of 2009.

The severe economic fallout from the COVID-19 pandemic weighed heavily on the business sentiment among large enterprises across all surveyed sectors (*Table 1*). Large enterprises in “accommodation and food services” and “retail” sectors were very gloomy about their business situation, as the threat of COVID-19 and various anti-epidemic measures brought inbound tourism to a standstill in February and March and seriously curtailed local consumption activities. Meanwhile, severe disruptions to production activity and plunging consumption demand worldwide caused by the pandemic darkened the outlook of the trade-related sectors, with the net balances in “transportation, storage and courier services”, and “import/export trade and wholesale” diving deeper in the negative zone. The net balances of all other sectors were also negative, reflecting the widespread economic impact of the disease. Overall hiring sentiment of large enterprises also plummeted, with all surveyed sectors expecting employment to decline in the second quarter of 2020 (*Table 2*).

Chart 1 : Business sentiment among large enterprises turned more subdued



Note : (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “better” over that choosing “worse”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

- (1) The Quarterly Business Tendency Survey collected views from around 500-600 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

Box 1.2 (Cont'd)

Table 1 : Large enterprises in all sectors expected deteriorating business situation in Q2 2020

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-3	-1	-8	-24	-27	-23
Construction	-23	-22	-7	-45	-28	-20
Import/export trade and wholesale	-23	-8	-8	-23	-23	-42
Retail	-6	-8	-24	-61	-39	-42
Accommodation and food services	-5	-9	-17	-44	-42	-63
Transportation, storage and courier services	-13	-1	-9	-26	-33	-47
Information and communications	-3	+13	+10	+6	-2	-15
Financing and insurance	-8	+9	-6	-21	-16	-32
Real estate	-5	+6	-10	-12	-18	-29
Professional and business services	-7	-4	-3	-25	-13	-37
All sectors above	-12	-1	-8	-25	-22	-37

Note: (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “better” over that choosing “worse”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

Table 2 : Hiring sentiment of large enterprises weakened in most sectors

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	+12	-6	+8	+5	+3	-18
Construction	-3	-6	+10	-20	-25	-22
Import/export trade and wholesale	-6	-4	-5	-9	-10	-13
Retail	+4	+1	0	-21	-19	-25
Accommodation and food services	+9	+12	+19	-13	-9	-35
Transportation, storage and courier services	+11	+6	+6	0	+1	-17
Information and communications	-11	+11	-3	-6	0	-2
Financing and insurance	+20	+12	+9	+11	+4	-9
Real estate	+7	+6	+7	-6	-13	-5
Professional and business services	-4	-8	+2	-2	-8	-12
All sectors above	+3	+1	+4	-7	-8	-17

Note: (*) Net balance indicates the direction of expected change in the number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “up” over that choosing “down”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

As for small and medium-sized enterprises (SMEs), the C&SD compiles a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general direction of change in their views on business situation versus the preceding month. The overall index on business receipts, at 31.0 in April 2020, stayed deep below the 50 divide, though somewhat better than the record low of 20.3 in February 2020 (*Chart 2a*). The employment situation of the SMEs surveyed deteriorated and stayed subdued in the recent months. Credit conditions, though still accommodative showed some tightening. Meanwhile, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ fell further in the contractionary zone to a new record low.

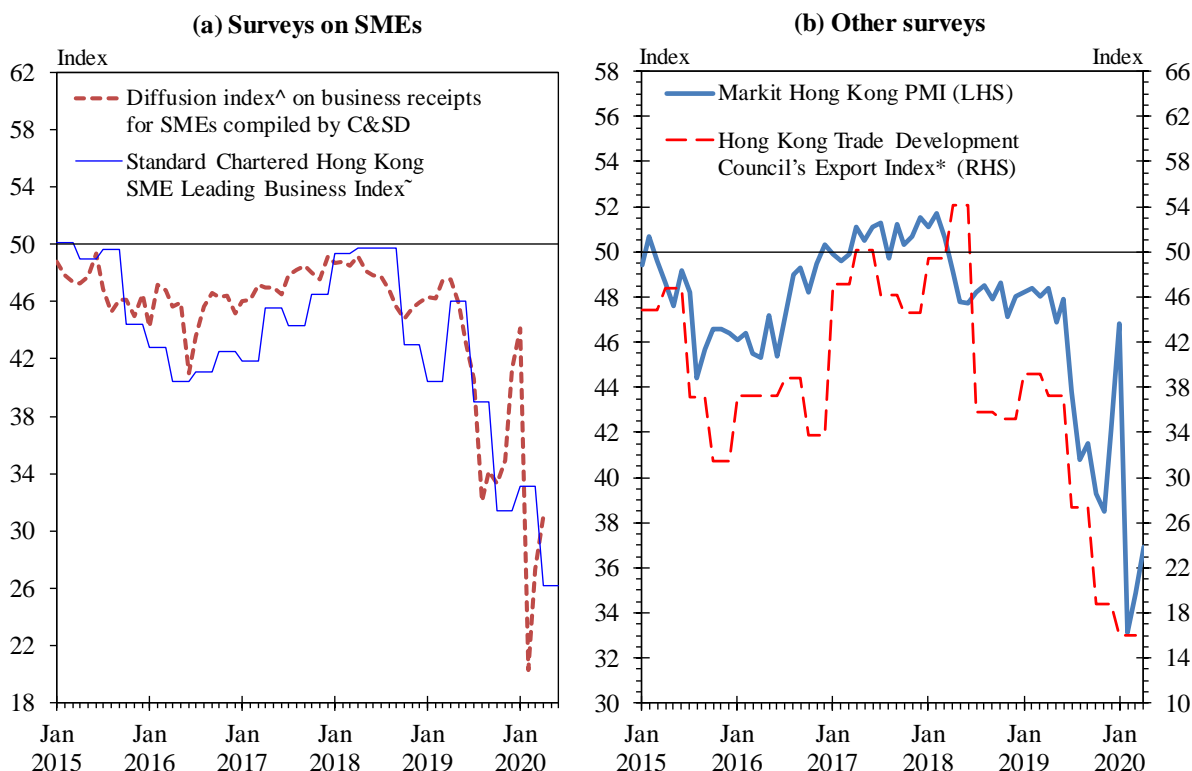
As for other surveys in the public domain, the Hong Kong Trade Development Council's Export Index⁽⁴⁾ fell further from 18.8 in the fourth quarter of 2019 to 16.0 in the first quarter of 2020 (*Chart 2b*), a fresh record low since the index was compiled in 2006. In this round of survey conducted in mid-February 2020, 63.9% of the traders identified the pandemic as the biggest threat to their businesses, overtaking softening global demand and US-Mainland trade tensions as their primary concern. Separately, the Markit Purchasing Managers' Index (PMI) of Hong Kong⁽⁵⁾, which gauges the performance of the private sector's business activity, still stayed well below the 50 boom-bust threshold at 36.9 in April 2020, though rising back somewhat from the recent record low of 33.1 in February 2020.

(2) It refers to the results from the Monthly Survey on the Business Situation of SMEs that solicits feedbacks from a panel sample of around 600 SMEs each month.

(3) Conducted independently by Hong Kong Productivity Council, the quarterly survey enables the public and SMEs to gain insights into the forthcoming business climate for better forward planning. The Overall Index comprises five areas, including local SMEs' outlook on the “Recruitment Sentiment”, “Investment Sentiment”, “Business Condition”, “Profit Margin”, and “Global Economy” for the next quarter.

Box 1.2 (Cont'd)

Chart 2 : Most of the other survey indicators also pointed to subdued business sentiment in recent months



Notes: (^) The diffusion index is computed by adding the percentage of SMEs reporting “up” to one half of the percentage of SMEs reporting “same”. A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(~) Launched in Q3 2012 and quarterly data.

(*) A reading above 50 indicates an upward trend and an optimistic outlook, while a reading below 50 indicates a downward trend and a pessimistic outlook.

It is worth to note that these surveys are essentially opinion-based, thereby unavoidably subject to various limitations (e.g. results are not directly comparable) and hence the results should be interpreted with care. Still, these survey findings taken together suggest that business sentiment in Hong Kong turned even more subdued amid the pandemic, while hiring sentiment also worsened noticeably. In view of the immense economic challenges, the Government has rolled out relief measures of unprecedented scale to support enterprises and safeguard jobs, with a view to preserving the vitality of the economy. As the global public health and economic situations are still subject to high uncertainties, the Government will stay vigilant and closely monitor various external and local developments, for their possible repercussions on Hong Kong’s business and employment situation.

- (4) The Hong Kong Trade Development Council’s Export Index is designed to gauge the prospects of the near-term export performance of Hong Kong traders. The business confidence survey is conducted on a quarterly basis, with 500 participating Hong Kong traders from six major industry sectors interviewed, namely electronics, clothing, jewellery, timepieces, toys and machinery.
- (5) According to the press release by IHS Markit, the Markit Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing executives in around 400 companies. It is a composite index based on five individual indices with the following weights: New Orders (30%); Output (25%); Employment (20%); Suppliers’ Delivery Times (15%); and Stocks of Purchases (10%), with the Suppliers’ Delivery Times index inverted so that it moves in a comparable direction. Survey responses reflect the change, if any, in the prevailing month compared to the previous month.